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Our Performance in 1965

Our War on Poverty was successful in 1965.

Specifically, we were $12,304,060 less poor at the end of the year.

Last year under a section in the annual letter entitled "Our Goal" (please particularly note it was not headed "Our Promise"), I stated we were trying to achieve ". . . An average advantage (relative to the Dow) of ten percentage points per annum for BPL before allocation to the general partner — again with large amplitudes in the margin from perhaps 10 percentage points worse than the Dow in a bad year to 25 percentage points better when everything clicks."

My fallibility as a forecaster was quickly demonstrated when the first year fell outside my parameters. We achieved our widest margin over the Dow in the history of BPL with an overall gain of 47.2% compared to an overall gain (including dividends which would have been received through ownership of the Dow) of 14.2% for the Dow. Naturally, no writer likes to be publicly humiliated by such a mistake. It is unlikely to be repeated.

The following summarizes the year-by-year performance of the Dow, the performance of the Partnership before allocation (one quarter of the excess over 6%) to the general partner, and the results for limited partners:

Year	Overall Results From Dow (1)	Partnership Results (2)	Limited Partners' Results (3)
1957	- 8.4%	+10.4%	+ 9.3%
1958	+38.5	+40.9	+32.2
1959	+20.0	+25.9	+20.9
1960	- 6.2	+22.8	+18.6
1961	+22.4	+45.9	+35.9
1962	- 7.6	+13.9	+11.9
1963	+20.6	+38.7	+30.5
1964	+18.7	+27.8	+22.3
1965	+14.2	+47.2	+36.9

(See next page for footnotes to table.)

(1) Based on yearly changes in the value of the Dow plus dividends that would have been received through ownership of the Dow during that year. The table includes all complete years of partnership activity.

(2) For 1957-61 consists of combined results of all predecessor limited partnerships operating throughout the entire year after all expenses, but before distributions to partners or allocations to the general partner.

(3) For 1957-61 computed on the basis of the preceding column of partnership results allowing for allocation to the general partner based upon the present partnership agreement, but before monthly withdrawals by limited partners.

On a cumulative or compounded basis, the results are:

Year	Overall Results From Dow	Partnership Results	Limited Partners' Results
1957	- 8.4%	+ 10.4%	+ 9.3%
1957-8	+ 26.9	+ 55.6	+ 44.5
1957-9	+ 52.3	+ 95.9	+ 74.7
1957-60	+ 42.9	+140.6	+107.2
1957-61	+ 74.9	+251.0	+181.6
1957-62	+ 61.6	+299.8	+215.1
1957-63	+ 94.9	+454.5	+311.2
1957-64	+131.3	+608.7	+402.9
1957-65	+164.1	+943.2	+588.5
Annual Compounded Rate	11.4	29.8	23.9

After last year the question naturally arises, "What do we do for an encore?" A disadvantage of this business is that it does not possess momentum to any significant degree. If General Motors accounts for 54% of domestic new car registrations in 1965, it is a pretty safe bet that they are going to come fairly close to that figure in 1966 due to owner loyalties, dealer capabilities, productive capacity, consumer image, etc. Not so for BPL. We start from scratch each year with everything valued at market when the gun goes off. Partners in 1966, new or old, benefit to only a very limited extent from the efforts of 1964 and 1965. The success of past methods and ideas does not transfer forward to future ones.

I continue to hope, on a longer-range basis, for the sort of achievement outlined in the "Our Goal" section of last year's letter (copies still available). However, those who believe 1965 results can be achieved with any frequency are probably attending weekly meetings of the Halley's Comet Observers Club. We are going to have loss years and are going to have years inferior to the Dow — no doubt about it. But I continue to believe we can achieve average performance superior to the Dow in the future. If my expectation regarding this should change, you will hear immediately.

Investment Companies

We regularly compare our results with the two largest open-end investment companies (mutual funds) that follow a policy of being typically 95% — 100% invested in common stocks, and the two largest diversified closed-end investment companies. These four companies, Massachusetts Investors Trust, Investors Stock Fund, Tri-Continental Corp., and Lehman Corp. manage over $5 billion, are owned by about 600,000 shareholders, and are probably typical of most of the $35 billion investment company industry. My opinion is that their results roughly parallel those of the overwhelming majority of other investment advisory organizations which handle, in aggregate, vastly greater sums.

The purpose of this tabulation is to illustrate that the Dow is no pushover as an index of investment achievement. The advisory talent managing just the four companies shown commands annual fees of about $10 million, and this represents a very small fraction of the professional investment management industry. The public batting average of this highly paid and widely respected talent indicates performance a shade below that of the Dow, an unmanaged index.

YEARLY RESULTS

Year	Mass. Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont. (2)	Dow	Limi Partn
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+ 9
1958	+42.7	+47.5	+40.8	+33.2	+38.5	+32
1959	+ 9.0	+10.3	+ 8.1	+ 8.4	+20.0	+20
1960	- 1.0	- 0.6	+ 2.5	+ 2.8	- 6.2	+18
1961	+25.6	+24.9	+23.6	+22.5	+22.4	+35
1962	- 9.8	-13.4	-14.4	-10.0	- 7.6	+11
1963	+20.0	+16.5	+23.7	+18.7	+20.6	+30
1964	+15.9	+14.3	+14.0	+13.6	+18.7	+22
1965	+10.2	+ 9.8	+19.0	+10.7	+14.2	+3[illegible]

(1) Computed from changes in asset value plus any distributions to holders of reco during year.

(2) From 1965 Moody's Bank & Finance Manual for 1957-64. Estimated for 1965.

COMPOUNDED

Year	Mass. Inv. Trust	Investors Stock	Lehman	Tri-Cont.	Dow	Limite Partner
1957	- 11.4%	- 12.4%	- 11.4%	- 2.4%	- 8.4%	+ 9.
1957-8	+ 26.4	+ 29.2	+ 24.7	+ 30.0	+ 26.9	+ 44.
1957-9	+ 37.8	+ 42.5	+ 34.8	+ 40.9	+ 52.3	+ 74.
1957-60	+ 36.4	+ 41.6	+ 38.2	+ 44.8	+ 42.9	+107.
1957-61	+ 71.3	+ 76.9	+ 70.8	+ 77.4	+ 74.9	+181.
1957-62	+ 54.5	+ 53.2	+ 46.2	+ 59.7	+ 61.6	+215.
1957-63	+ 85.4	+ 78.5	+ 80.8	+ 89.6	+ 94.9	+311.
1957-64	+114.9	+104.0	+106.1	+115.4	+131.3	+402.
1957-65	+136.8	+124.0	+145.3	+138.4	+164.1	+588.
Annual Compounded Rate	10.1	9.4	10.5	10.1	11.4	23.

A number of the largest investment advisory operations (managing, in some cases, well into the billions of dollars) also manage investment companies partly as a convenience for smaller clients and partly as a public showcase. The results of these funds roughly parallel those of the four funds on which we report.

I strongly believe in measurement. The investment managers mentioned above utilize measurement constantly in their activities. They constantly study changes in market shares, profit margins, return on capital, etc. Their entire decision-making process is geared to measurement — of managements, industries, comparative yields, etc. I am sure they keep score on their new business efforts as well as the profitability of their advisory operation. What then can be more fundamental than the measurement, in turn, of investment ideas and decisions? I certainly do not believe the standards I utilize (and wish my partners to utilize) in measuring my performance are the applicable ones for all money managers. But I certainly do believe anyone engaged in the management of money should have a standard of measurement, and that both he and the party whose money is managed should have a clear understanding why it is the appropriate standard, what time period should be utilized, etc.

Frank Block put it very well in the November-December 1965 issue of the Financial Analysts Journal. Speaking of measurement of investment performance he said, " . . . However, the fact is that literature suffers a yawning hiatus in this subject. If investment management organizations sought always the best performance, there would be nothing unique in careful measurement of investment results. It does not matter that the customer has failed to ask for a formal presentation of the results. Pride alone would be sufficient to demand that each of us determine objectively the quality of his recommendations. This can hardly be done without precise knowledge of the outcome. Once this knowledge is in hand, it should be possible to extend the analysis to some point at which patterns of weakness and strength begin to assert themselves. We criticize a corporate management for failure to use the best of tools to keep it aware of the progress of a complicated industrial organization. We can hardly be excused for failure to provide ourselves with equal tools to show the efficiency of our own efforts to handle other people's money. . . . Thus, it is our dreary duty to report that systems of performance measurement are not automatically included in the data processing programs of most investment management organizations. The sad fact is that some seem to prefer not to know how well or poorly they are doing. . . . ."

Frankly, I have several selfish reasons for insisting that we apply a yardstick and that we both utilize the same yardstick. Naturally, I get a kick out of beating par — in the lyrical words of Casey Stengel, "Show me a good loser, and I'll show you a loser." More importantly, I insure that I will not get blamed for the wrong reason (having losing years) but only for the right reason (doing poorer than the Dow). Knowing partners will grade me on the right basis helps me do a better job. Finally, setting up the relevant yardsticks ahead of time insures that we will all get out of this business if the results become mediocre (or worse). It means that past successes cannot cloud judgment of current results. It should reduce the chance of ingenious rationalizations of inept performance. (Bad lighting has been bothering me at the bridge table lately.) While this masochistic approach to measurement may not sound like much of an advantage, I can assure you from my observations of business entities that such evaluation would have accomplished a great deal in many investment and industrial organizations.

So if you are evaluating others (or yourself!) in the investment field, think out some standards — apply them — interpret them. If you do not feel our standard (a minimum of a three-year test versus the Dow) is an applicable one, you should not be in the Partnership. If you do feel it is applicable, you should be able to take the minus years with equanimity — in the visceral regions as well as the cerebral regions — as long as we are surpassing the results of the Dow.

The Sorrows of Compounding

Usually, at this point in my letter, I have paused to modestly attempt to set straight the historical errors of the last four or five hundred years. While it might seem difficult to accomplish this in only a few paragraphs a year, I feel I have done my share to reshape world opinion on Columbus, Isabella, Francis I, Peter Minuit and the Manhattan Indians. A by-product of this endeavor has been to demonstrate the overwhelming power of compound interest. To insure reader attention I have entitled these essays "The Joys of Compounding." The sharp-eyed may notice a slight change this year.

A decent rate (better we have an indecent rate) of compound — plus the addition of substantial new money has brought our beginning capital this year to $43,645,000. Several times in the past I have raised the question whether increasing amounts of capital would harm our investment performance. Each time I have answered negatively and promised you that if my opinion changed, I would promptly report it.

I do not feel that increased capital has hurt our operation to date. As a matter of fact, I believe that we have done somewhat better during the past few years with the capital we have had in the Partnership than we would have done if we had been working with a substantially smaller amount. This was due to the partly fortuitous development of several investments that were just the right size for us — big enough to be significant and small enough to handle.

I now feel that we are much closer to the point where increased size may prove disadvantageous. I don't want to ascribe too much precision to that statement since there are many variables involved. What may be the optimum size under some market and business circumstances can be substantially more or less than optimum under other circumstances. There have been a few times in the past when on a very short-term basis I have felt it would have been advantageous to be smaller but substantially more times when the converse was true.

Nevertheless, as circumstances presently appear, I feel substantially greater size is more likely to harm future results than to help them. This might not be true for my own personal results, but it is likely to be true for your results.

Therefore, unless it appears that circumstances have changed (under some conditions added capital would improve results) or unless new partners can bring some asset to the Partnership other than simply capital, I intend to admit no additional partners to BPL.

The only way to make this effective is to apply it across-the-board and I have notified Susie that if we have any more children, it is up to her to find some other partnership for them.

Because I anticipate that withdrawals (for taxes, among other reasons) may well approach additions by present partners and also because I visualize the curve of expectable performance sloping only very mildly as capital increases, I presently see no reason why we should restrict capital additions by existing partners.

The medically oriented probably will interpret this entire section as conclusive evidence that an effective antithyroid pill has been developed.

Trends in Our Business

Last year I discussed our various categories of investments. Knowing the penalties for cruel and unusual punishments, I will skip a rehash of the characteristics of each category, but merely refer you to last year's letter. However, a few words should be said to bring you up to date on the various segments of the business, and perhaps to give you a better insight into their strengths and weaknesses.

The "Workout" business has become very spasmodic. We were able to employ an average of only about $6 million during the year in the Workout section, and this involved only a very limited number of situations. Although we earned about $1,410,000, or about 23 1/2% on average capital employed (this is calculated on an all equity basis — borrowed money is appropriate in most Workout situations, and we utilize it, which improves our rate of return above this percentage), over half of this was earned from one situation. I think it unlikely that a really interesting rate of return can be earned consistently on large sums of money in this business under present conditions. Nevertheless, we will continue to try to remain alert for the occasional important opportunity and probably continue to utilize a few of the smaller opportunities where we like the probabilities.

The "Generals-Private Owner Basis" category was very good to us in 1965. Opportunities in this area have become more scarce with a rising Dow, but when they come along, they are often quite significant. I mentioned at the start of last year that we were the largest stockholder of three companies in this category. Our largest yearend 1964 investment in this category was disposed of in 1965 pursuant to a tender offer resulting in a realized gain for BPL of $3,188,000. At yearend 1964 we had unrealized appreciation in this investment of $451,000. Therefore, the economic gain attributable to 1965 for this transaction was only $2,737,000 even though the entire tax effect fell in that year. I mention these figures to illustrate how our realized gain for tax purposes in any year bears no necessary relationship to our economic gain.

The fundamental concept underlying the Generals-Private Owner category is demonstrated by the above case. A private owner was quite willing (and in our opinion quite wise) to pay a price for control of the business which isolated stock buyers were not willing to pay for very small fractions of the business. This has been a quite common condition in the securities markets over many years, and although purchases in this category work out satisfactorily in terms of just general stock market behavior, there is the occasional dramatic profit due to corporate action such as the one above.

The "Control" section of our business received a transfer member from our "Private Owner" category. Shares in Berkshire Hathaway had been acquired since November 1962 on much the same line of reasoning as prevailed in the security mentioned above. In the case of Berkshire, however, we ended up purchasing enough stock to assume a controlling position ourselves rather than the more usual case of either selling our stock in the market or to another single buyer.

Our purchases of Berkshire started at a price of $7.60 per share in 1962. This price partially reflected large losses incurred by the prior management in closing some of the mills made obsolete by changing conditions within the textile business (which the old management had been quite slow to recognize). In the postwar period the company had slid downhill a considerable distance, having hit a peak in 1948 when about $29 1/2 million was earned before tax and about 11,000 workers were employed. This reflected output from 11 mills.

At the time we acquired control in spring of 1965, Berkshire was down to two mills and about 2,300 employees. It was a very pleasant surprise to find that the remaining units had excellent management personnel, and we have not had to bring a single man from the outside into the operation. In relation to our beginning acquisition cost of $7.60 per share (the average cost, however, was $14.86 per share, reflecting very heavy purchases in early 1965), the company on December 31, 1965, had net working capital alone (before placing any value on the plants and equipment) of about $19 per share.

Berkshire is a delight to own. There is no question that the state of the textile industry is the dominant factor in determining the earning power of the business, but we are most fortunate to have Ken Chace running the business in a first-class manner, and we also have several of the best sales people in the business heading up this end of their respective divisions.

While a Berkshire is hardly going to be as profitable as a Xerox, Fairchild Camera or National Video in a hypertensed market, it is a very comfortable sort of thing to own. As my West Coast philosopher says, "It is well to have a diet consisting of oatmeal as well as cream puffs."

Because of our controlling interest, our investment in Berkshire is valued for our audit as a business, not as a marketable security. If Berkshire advances $5 per share in the market, it does BPL no good — our holdings are not going to be sold. Similarly, if it goes down $5 per share, it is not meaningful to us. The value of our holding is determined directly by the value of the business. I receive no divine inspiration in that valuation of our holdings. (Maybe the owners of the three wonder stocks mentioned above do receive such a message in respect to their holdings — I feel I would need something at least that reliable to sleep well at present prices.) I attempt to apply a conservative valuation based upon my knowledge of assets, earning power, industry conditions, competitive position, etc. We would not be a seller of our holdings at such a figure, but neither would we be a seller of the other items in our portfolio at yearend valuations — otherwise, we would already have sold them.

Our final category is "Generals-Relatively Undervalued." This category has been growing in relative importance as opportunities in the other categories become less frequent.

Frankly, operating in this field is somewhat more ethereal than operating in the other three categories, and I'm just not an ethereal sort. Therefore, I feel accomplishments here are less solid and perhaps less meaningful for future projections than in the other categories. Nevertheless, our results in 1965 were quite good in the "Relatively Undervalued" group, partly due to implementation of the technique referred to in last year's letter which serves to reduce risk and potentially augment gains. It should reduce risk in any year, and it definitely augmented the gains in 1965. It is necessary to point out that results in this category were greatly affected for the better by only two investments.

Candor also demands I point out that during 1965 we had our worst single investment experience in the history of BPL on one idea in this group.

Overall, we had more than our share of good breaks in 1965. We did not have a great quantity of ideas, but the quality, with the one important exception mentioned above, was very good and circumstances developed which accelerated the timetable in several. I do not have a great flood of good ideas as I go into 1966, although again I believe I have at least several potentially good ideas of substantial size. Much depends on whether market conditions are favorable for obtaining a larger position.

All in all, however, you should recognize that more came out of the pipeline in 1965 than went in.

Diversification

Last year in commenting on the inability of the overwhelming majority of investment managers to achieve performance superior to that of pure chance, I ascribed it primarily to the product of: "(1) group decisions —

my perhaps jaundiced view is that it is close to impossible for outstanding investment management to come from a group of any size with all parties really participating in decisions; (2) a desire to conform to the policies and (to an extent) the portfolios of other large well-regarded organizations; (3) an institutional framework whereby average is "safe" and the personal rewards for independent action are in no way commensurate with the general risk attached to such action; (4) an adherence to certain diversification practices which are irrational; and finally and importantly, (5) inertia."

This year in the material which went out in November, I specifically called your attention to a new Ground Rule reading, "7. We diversify substantially less than most investment operations. We might invest up to 40% of our net worth in a single security under conditions coupling an extremely high probability that our facts and reasoning are correct with a very low probability that anything could drastically change the underlying value of the investment."

We are obviously following a policy regarding diversification which differs markedly from that of practically all public investment operations. Frankly there is nothing I would like better than to have 50 different investment opportunities, all of which have a mathematical expectation (this term reflects the range of all possible relative performances, including negative ones, adjusted for the probability of each — no yawning, please) of achieving performance surpassing the Dow by, say, fifteen percentage points per annum. If the fifty individual expectations were not intercorrelated (what happens to one is associated with what happens to the other) I could put 2% of our capital into each one and sit back with a very high degree of certainty that our overall results would be very close to such a fifteen percentage point advantage.

It doesn't work that way.

We have to work extremely hard to find just a very few attractive investment situations. Such a situation by definition is one where my expectation (defined as above) of performance is at least ten percentage points per annum superior to the Dow. Among the few we do find, the expectations vary substantially. The question always is, "How much do I put in number one (ranked by expectation of relative performance) and how much do I put in number eight?" This depends to a great degree on the wideness of the spread between the mathematical expectation of number one versus number eight. It also depends upon the probability that number one could turn in a really poor relative performance. Two securities could have equal mathematical expectations, but one might have .05 chance of performing fifteen percentage points or more worse than the Dow, and the second might have only .01 chance of such performance. The wider range of expectation in the first case reduces the desirability of heavy concentration in it.

The above may make the whole operation sound very precise. It isn't. Nevertheless, our business is that of ascertaining facts and then applying experience and reason to such facts to reach expectations. Imprecise and emotionally influenced as our attempts may be, that is what the business is all about. The results of many years of decision-making in securities will demonstrate how well you are doing on making such calculations — whether you consciously realize you are making the calculations or not. I believe the investor operates at a distinct advantage when he is aware of what path his thought process is following.

There is one thing of which I can assure you. If good performance of the fund is even a minor objective, any portfolio encompassing one hundred stocks (whether the manager is handling one thousand dollars or one billion dollars) is not being operated logically. The addition of the one hundredth stock simply can't reduce the potential variance in portfolio performance sufficiently to compensate for the negative effect its inclusion has on the overall portfolio expectation.

Anyone owning such numbers of securities after presumably studying their investment merit (and I don't care how prestigious their labels) is following what I call the Noah School of Investing — two of everything. Such investors should be piloting arks. While Noah may have been acting in accord with certain time-tested biological principles, the investors have left the track regarding mathematical principles. (I only made it through plane geometry, but with one exception, I have carefully screened out the mathematicians from our Partnership.)

Of course, the fact that someone else is behaving illogically in owning one hundred securities doesn't prove our case. While they may be wrong in overdiversifying, we have to affirmatively reason through a proper diversification policy in terms of our objectives.

The optimum portfolio depends on the various expectations of choices available and the degree of variance in performance which is tolerable. The greater the number of selections, the less will be the average year-to-year variation in actual versus expected results. Also, the lower will be the expected results, assuming different choices have different expectations of performance.

I am willing to give up quite a bit in terms of leveling of year-to-year results (remember when I talk of "results," I am talking of performance relative to the Dow) in order to achieve better overall long-term performance. Simply stated, this means I am willing to concentrate quite heavily in what I believe to be the best investment opportunities recognizing very well that this may cause an occasional very sour year — one somewhat more sour, probably, than if I had diversified more. While this means our results will bounce around more, I think it also means that our long-term margin of superiority should be greater.

You have already seen some examples of this. Our margin versus the Dow has ranged from 2.4 percentage points in 1958 to 33.0 points in 1965. If you check this against the deviations of the funds listed on page three, you will find our variations have a much wider amplitude. I could have operated in such a manner as to reduce our amplitude, but I would also have reduced our overall performance somewhat although it still would have substantially exceeded that of the investment companies. Looking back, and continuing to think this problem through, I feel that if anything, I should have concentrated slightly more than I have in the past. Hence, the new Ground Rule and this long-winded explanation.

Again let me state that this is somewhat unconventional reasoning (this doesn't make it right or wrong — it does mean you have to do your own thinking on it), and you may well have a different opinion — if you do, the Partnership is not the place for you. We are obviously only going to go to 40% in very rare situations — this rarity, of course, is what makes it necessary that we concentrate so heavily when we see such an opportunity. We probably have had only five or six situations in the nine-year history of the Partnership where we have exceeded 25%. Any such situations are going to have to promise very significantly superior performance relative to the Dow compared to other opportunities available at the time. They are also going to have to possess such superior qualitative and/or quantitative factors that the chance of serious permanent loss is minimal (anything can happen on a short-term quotational basis which partially explains the greater risk of widened year-to-year variation in results). In selecting the limit to which I will go in any one investment, I attempt to reduce to a tiny figure the probability that the single investment (or group, if there is intercorrelation) can produce a result for our total portfolio that would be more than ten percentage points poorer than the Dow.

We presently have two situations in the over 25% category — one a controlled company, and the other a large company where we will never take an active part. It is worth pointing out that our performance in 1965 was overwhelmingly the product of five investment situations. The 1965 gains (in some cases there were also gains applicable to the same holding in prior years) from these situations ranged from about $800,000 to about $3 1/2 million. If you should take the overall performance of our five smallest general investments in 1965, the results are lackluster (I chose a very charitable adjective).

Interestingly enough, the literature of investment management is virtually devoid of material relative to deductive calculation of optimal diversificati

All texts counsel "adequate" diversification, but the ones who quantify "adequate" virtually never explain how they arrive at their conclusion. Hence, for our summation on overdiversification, we turn to that eminent academician Billy Rose, who says, "You've got a harem of seventy girls; you don't get to know any of them very well."

Miscellaneous

Last year we boldly announced an expansion move, encompassing an additional 227 1/4 square feet. Older partners shook their heads. I feel that our gain from operations in 1965 of $12,304,060 indicates that we did not overextend ourselves. Fortunately, we didn't sign a percentage lease. Operationally, things have never been running more smoothly, and I think our present setup unquestionably lets me devote a higher percentage of my time to thinking about the investment process than virtually anyone else in the money management business. This, of course, is the result of really outstanding personnel and cooperative partners.

John Harding has taken complete charge of all administrative operations with splendid results. Bill Scott continues to develop detailed information on investments which substantially enhances our net profit figure. Beth Feehan, Donna Walter and Elizabeth Hanon (who joined us in November) have all handled large work loads (secretary's note — Amen!) accurately and efficiently.

The above people, their spouses (one apiece) and children have a combined investment in the Partnership of over $600,000. Susie and I have an investment of $6,849,936, which should keep me from slipping away to the movies in the afternoon. This represents virtually our entire net worth, with the exception of our continued holding of Mid-Continent Tab Card, a local company into which I bought in 1960 when it had less than 10 stockholders.

Additionally, my relatives, consisting of three children, mother, two sisters, two brothers-in-law, father-in-law, three aunts, two uncles, five cousins, and six nieces and nephews have interests in BPL, directly or indirectly, totaling $2,708,233. So don't get any ideas about voting a change in the Partnership name.

Peat, Marwick, Mitchell & Co. has done the customary excellent job of expediting the audit and tax information. This requires great effort and ability, and they supply both. This year a computer was brought to bear on our problems, and naturally, I was a little worried someone else would come out as the general partner. However, it all worked quite smoothly.

Within the coming two weeks you will receive:

(1) A tax letter giving you all BPL information needed for your 1965 federal income tax return. This letter is the only item that counts for tax purposes.

(2) An audit from Peat, Marwick, Mitchell & Co. for 1965, setting forth the operations and financial position of BPL, as well as your own capital account.

(3) A letter signed by me setting forth the status of your BPL interest on 1/1/66. This is identical with the figures developed in the audit.

Let me know if anything in this letter or that occurs during the year needs clarifying. It is difficult to anticipate all of the questions you may have, and if there is anything that is confusing, I want to hear about it. For instance, we received an excellent suggestion last year from a partner regarding the presentation of the reconciliation of personal capital accounts.

My next letter will be about July 15th, summarizing the first half of this year.

Cordially,

Warren E. Buffett

WEB:bf